# Senate

General Assembly **File No. 571**

***February Session, 2018*** Senate Bill No. 261

*Senate, April 18, 2018*

The Committee on Finance, Revenue and Bonding reported through SEN. FONFARA of the 1st Dist. and SEN. FRANTZ, L. of the 36th Dist., Chairpersons of the Committee on the part of the Senate, that the bill ought to pass.

## *AN ACT EXTENDING THE MANUFACTURING APPRENTICESHIP TAX CREDIT TO PASS-THROUGH ENTITIES.*

Be it enacted by the Senate and House of Representatives in General Assembly convened:

Section 1. Subsection (a) of section 12-217g of the general statutes is repealed and the following is substituted in lieu thereof (*Effective July 1, 2018, and applicable to income and taxable years commencing on or after January 1, 2018*):

(a) (1) There shall be allowed a credit for any taxpayer against the tax imposed under this chapter or chapter 229, other than the liability imposed by section 12-707, for any income or taxable year with respect to each apprenticeship in the manufacturing trades commenced by such taxpayer in such year under a qualified apprenticeship training program as described in this section, certified in accordance with regulations adopted by the Labor Commissioner and registered with the Connecticut State Apprenticeship Council established under section 31-22n, in an amount equal to six dollars per hour multiplied by the total number of hours worked during the income or taxable year by apprentices in the first half of a two-year term of apprenticeship and the first three-quarters of a four-year term of apprenticeship, provided the amount of credit allowed for any income or taxable year with respect to each such apprenticeship may not exceed seven thousand five hundred dollars or fifty per cent of actual wages paid in such [income] year to an apprentice in the first half of a two-year term of apprenticeship or in the first three-quarters of a four-year term of apprenticeship, whichever is less.

(2) (A) Effective for income years commencing on [and] or after January 1, 2015, for purposes of this subsection, "taxpayer" includes an affected business entity, as defined in section 12-284b. [Any] For income years commencing on or after January 1, 2015, but prior to January 1, 2018, any affected business entity allowed a credit under this subsection may sell, assign or otherwise transfer such credit, in whole or in part, to one or more taxpayers to offset any state tax due or otherwise payable by such taxpayers under this chapter, or, with respect to income years commencing on or after January 1, 2016, but prior to January 1, 2018, chapter 212 or 227, provided such credit may be sold, assigned or otherwise transferred, in whole or in part, not more than three times.

(B) Effective for income years commencing on or after January 1, 2018, if the taxpayer is an S corporation or an entity treated as a partnership for federal income tax purposes, the shareholders or partners of such taxpayer may claim the credit under this subsection. If the taxpayer is a single member limited liability company that is disregarded as an entity separate from its owner, the limited liability company's owner may claim the credit under this subsection.

This act shall take effect as follows and shall amend the following sections:

| | | |
|---|---|---|
| Section 1 | *July 1, 2018, and applicable to income and taxable years commencing on or after January 1, 2018* | 12-217g(a) |

***CE*** *Joint Favorable C/R* FIN

***FIN*** *Joint Favorable*

## OFA Fiscal Note

### State Impact:

| Agency Affected | Fund-Effect | FY 19 $ | FY 20 $ |
|---|---|---|---|
| Revenue Serv., Dept. | GF - Revenue Loss | 650,000 | 650,000 |
| Revenue Serv., Dept. | GF - Cost | Less than 100,000 | None |

Note: GF=General Fund

### Municipal Impact: None

### Explanation

The bill, which allows pass-through entities to claim manufacturing apprenticeship tax credits against the Personal Income Tax, results in a revenue loss of $650,000 annually beginning in FY 19. This also results in a one-time cost of less than $100,000 in FY 19 to the Department of Revenue Services associated with updates to the online Taxpayer Service Center to allow pass-through entities to claim the credit on their tax forms.

### The Out Years

The annualized ongoing revenue impact identified above would continue into the future.

## OLR Bill Analysis

## SB 261

### *AN ACT EXTENDING THE MANUFACTURING APPRENTICESHIP TAX CREDIT TO PASS-THROUGH ENTITIES.*

### SUMMARY

This bill extends the manufacturing apprenticeship tax credit to the personal income tax, thus allowing owners and partners of pass-through entities to claim it against that tax. Because current law limits the credit's application to the corporation business tax, only businesses that are organized as corporations and hire apprentices may currently claim it.

Although current law allows pass-through entities, such as partnerships, limited liability companies (LLCs), and S corporations, to earn the credit, they can only sell, assign, or transfer it to a corporation, utility company, or petroleum products distribution company for application against their respective taxes. The bill ends this practice.

By law, the manufacturing apprenticeship credit is available for each apprentice. It equals the lesser of $6 per hour, $7,500, or 50% of the actual apprenticeship wages. The period for claiming the credit depends on the apprentice's program duration: the program's first year for a two-year program and the first three years for a four-year program.

EFFECTIVE DATE: July 1, 2018, and applicable to income and taxable years beginning on or after January 1, 2018.

### PASS-THROUGH ENTITIES

The bill allows the owners and partners of partnerships, LLCs, S corporations, and other pass-through entities to use the manufacturing apprenticeship tax credit to reduce their personal income tax liability.

If the entity is an S corporation or one treated as a partnership for federal tax purposes, its shareholders or partners may claim the credit. If it is an LLC, has only one owner, and does not file a separate federal tax return (i.e., "disregarded entity"), the owner may claim the credit.

Under current law, the credit applies only against the corporation business tax imposed on businesses organized as corporations. Businesses organized as pass-through entities are not liable for this tax, but their owners and partners must pay personal income taxes on the income they derive from these entities.

## CREDIT SALE, ASSIGNMENT, OR TRANSFER ELIMINATED

Although current law allows pass-through entities to earn the manufacturing apprenticeship tax credit, it bars their owners or partners from claiming the credit against their personal income taxes. Instead, it allows them to cash in their credits by selling, assigning, or transferring them to corporations, utility companies, and petroleum products distribution companies, which may use them to reduce their tax liability. The bill eliminates this authorization for taxable years on or after January 1, 2018.

## COMMITTEE ACTION

Commerce Committee

Joint Favorable Change of Reference - FIN

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|---|---|---|---|---|
| Yea | 20 | Nay | 0 | (03/22/2018) |

Finance, Revenue and Bonding Committee

Joint Favorable

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|---|---|---|---|---|
| Yea | 51 | Nay | 0 | (04/05/2018) |